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DEPARTMENT OF ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HEUPER
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SUBJECT: KAZAKHSTAN SEARCHES FOR NEW ENERGY SECTOR MODEL

REF: ASTANA 3379

Classified By: AMBASSADOR JOHN ORDWAY FOR REASONS 1.4 (B) AND (D)

¶1. (C) Summary: Kazakhstani officials have made a series of announcements since the beginning of 2008 indicating that Kazakhstan intends to take a tougher stance with foreign energy investors. Prime Minister Masimov has banned new production-sharing agreements, called for a new tax code for natural resource users, and vowed to expropriate mineral fields from "unscrupulous operators." Minister of Energy and Natural Resources Sauat Mynbayev announced that Kazakhstan will seek to introduce customs duties on exports of crude oil and other products from 2009. While Kazakhstan is clearly trying to increase its share of energy sector profits, foreign investors are not panicking. Both ExxonMobil and ConocoPhillips are actively pursuing new opportunities in Kazakhstan. Several country representatives for international oil companies have described Kazakhstan's actions as a move to a new model for deals, not a radicalization of the energy sector. In addition, Prime Minister Masimov told the Ambassador that as long as President Nazarbayev is in power existing contracts will be respected. End Summary

Tough Statements From the GOK

2, (SBU) GOK officials have signaled their intent to establish a new modus operandi in the energy sector. In February, Prime Minister Masimov banned new production sharing agreements and announced publicly that a new tax code will be formulated defining "precise rules of the game for natural resource users and increasing the government's take from the raw materials sector." Masimov also announced that Kazakhstan would expropriate mineral fields from "unscrupulous" developers by the end of 2008. In January, Minister of Energy and Mineral Resources Sauat Mynbayev said that the GOK would introduce customs duties on exports of crude oil and products from 2009.

¶3. (SBU) While seeking a bigger share of the energy sector pie, the GOK has also sought to reassure foreign investors. Masimov promised that Kazakhstan will "continue to honor its obligations stipulated by the contracts that have already been concluded." Deputy Energy Minister Lyazzat Kiinov, responding to Prime Minister Masimov's threat to revoke mineral licenses, said that "there is not a single Western investor" in a group of 60 to 70 contracts under review.

Even Mynbayev's call for export duties on oil exports may have a limited affect, as the new taxes will not apply to production sharing agreements or most other stabilized contracts.

Kazakhstan Seeks a New System

4.(C) Several country representatives for international oil companies acknowledged to Poloff that Kazakhstan is looking to increase its share of energy sector earnings. Per Einer Rettedal, Country Manager for StatoilHydro, described the Kazakhstanis as mistrustful of PSAs and searching for a new framework for deals. According to Rettedal, the Kazakhstanis still do not clearly understand PSAs. They believe that PSAs only benefit the oil companies while offering no advantages to Kazakhstan. Rettedal, who has worked with Kazakhstan since its independence, said that twice Kazakhstani Energy ministers in Norway have asked how Kazakhstan should punish oil companies that have delays and cost overruns. The Norwegians, he said, had difficulty on each occasion even understanding the question, because they see it as a fundamental misunderstanding of the relationship between governments and oil companies. (Comment: This was not the only instance in which Kazakhstanis energy officials exhibited a different world view than the Norwegians. One KazMunaiGas official on a tour of oil-rich Norway asked "where are all the Mercedes'?")

15. (C) Nevertheless, said Rettedal, Kazakhstan "is not Moscow." He believes that the Kazakhstanis have no intention of "squeezing out the IOCs." Moreover, the Kazakhstanis understand that they do not have the resources or the

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expertise to act alone , he added.

16. (C) Patty Graham, ExxonMobil General Relations and Public Affairs Director, told Poloff that she believes Kazakhstan is moving to a new model in its relationships with international oil companies,, but is "not looking to take things over." Graham said that Kazakhstan's energy policymakers are adopting a strategy mirroring Kazakhstan's multi-vector foreign policy. Kazakhstan in the future will try to achieve a balance between the major foreign oil companies, seeking different partners for different projects, but with KMG always in the lead.

17. (C) ConocoPhillips Country Manager said that Kazakhstan is "tightening the screws" but that its actions must be compared with "situations elsewhere." As an indication that ConocoPhillips has not been put off by changes in Kazakhstan, Olds told Poloff that ConocoPhillips is making another push for a deal on N Block. Conoco CEO Jim Mulva traveled to Kazakhstan on February 28. (Comment: Both Prime Minister Masimov and Energy Minister Mynbayev have told the Ambassador that Kazakhstan will move forward with ConocoPhillips on N Block. Conoco is not the only American major pursuing new deals in Kazakhstan. ExxonMobil is attempting to secure rights to an on-shore field.)

Prime Minister Masimov's Message to the Ambassador

18. (C) Prime Minister Masimov told the Ambassador on February 19 that ensuring long-term stability and respect for existing contracts will not be a problem as long as President Nazarbayev is in office. After his departure, however, the contracts may be vulnerable because they have never been ratified and thus do not have status superior to Kazakhstani law as amended. Masimov said that the only way to solve the problem is to get the contracts ratified, which he described as a personal priority.

19. (C) Comment: Kazakhstan's vision of terms for future energy deals should become clearer in coming months after

talks with several of the major investors seeking new projects in Kazakhstan. With President Nazarbayev, Prime Minister Masimov, and KMG's Makhsat Idenov (in that order) shaping the strategy, we expect the new framework established to be more advantageous and profitable for Kazakhstan but not damaging to the investment climate. End Comment

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